



**VERMONT PENSION INVESTMENT COMMITTEE
JULY 28, 2015**

VPIC Members Present:

STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018
KAREN PAUL, Governor's Delegate, term expiring June 30, 2018
THOMAS GOLONKA, VMERS Representative, term expiring June 30, 2016
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

VPIC Member(s) Absent:

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Alternate Members Present:

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017
DAVID STARR, Governor's Delegate *Alternate*, term expiring June 30, 2016
JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

MEL HAWLEY, VMERS *Alternate*, term expiring June 30, 2016

Also attending:

Matt Considine, Director of Investments
Nick Foss, Investments Analyst
Katie Green, Investments Manager
Jaye Pershing-Johnson and Jesse Moorman, Attorney General's Office
Doug Moseley and Chris Levell, NEPC LLC
Kai Petersen and David Driscoll, Buck Consultants
VMERS Board
VSERS Board
VSTRS Board

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, July 28th meeting to order at 8:30 am, which was held in the Pavilion Auditorium, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval and Announcements**

The Chair, Mr. Rauh, reviewed the agenda with the Committee and, hearing no objection, indicated the agenda was approved as written.

ITEM 2: Joint Meeting with Pension Boards to Consider Investment Return Assumption

The VSERS Board was called to order at 8:34 AM

The VSTRS Board was called to order at 8:35AM

The VMERS Board was called to order at 8:35AM

The Treasurer, Ms. Pearce, introduced Buck Consulting actuaries David Driscoll and Kai Petersen to the Committee. Representatives from Buck Consulting briefly reviewed the actuarial studies conducted for all the state's retirement systems and went in depth on the General Economy Market Simulator (GEMS) product that is used to forecast their capital market assumptions.

On a motion by Beth Pearce on behalf of VPIC, VMERS, VSTRS, and VSERS, seconded by Jim Reardon on behalf of VSERS, Vaughn Altemus on behalf of VSTRS and VPIC, and Tom Golonka on behalf of VMERS, the Committee unanimously approved a motion to adopt the 7.95% actuarial required rate of return.

Jim Reardon made a motion for the VSERS board to adjourn, seconded by Jay Wisner

Vaughn Altemus made a motion for the VSTRS board to adjourn, seconded by Beth Pearce

Peter Amons made a motion for the VMERS board to adjourn, seconded by Tom Golonka

ITEM 3: Consent Agenda

- **Minutes of June 23, 2015 – Regular Meeting**
- **Routine Contract Amendments and Renewals**

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes and routine contract items.

On a motion by Karen Paul, seconded by Beth Pearce, the Committee unanimously approved a motion to approve the Consent Agenda as written.

ITEM 4: Director of Investments Report and Action Items

Mr. Considine reviewed the Director of Investments Report with the Board. He outlined the Portfolio Asset Allocation table and notified the board that, as of June 30th, the VPIC composite AUM was at \$4 billion and the allocations were in line with their target allocations. Mr. Considine notified the Board that Staff had been contacted about an additional offering being made available exclusively to current limited partners of Siguler Guff's DREOF II fund on a pro-

rata basis (\$11mm). Mr. Moseley indicated that NEPC would discuss this opportunity at the next meeting after their analyst had finalized their report and issued an opinion. Mr. Considine provided an update on quarterly contracts in process, or currently being negotiated, as well as noted Staff's review on the prospects of divestment will be reviewed later in the meeting.

ITEM 5: Discussion Items and Updates

- **Vermont State Treasurer's Update**

The Treasurer, Ms. Pearce, presented the Treasurer's Report for the Board. She outlined the financial impact the recently completed experience studies are having on all the state's retirement systems and answered any questions from the Committee. Treasurer Pearce also notified the Committee that an education session centering on Environmental Social Governance (ESG) factors, retirement funding, GASB regulatory changes, and a number of other issues pertinent to the retirement systems will be taking place on September 4th at 8:00AM, with the location to be announced soon. Finally, Treasurer Pearce noted that she, in her capacity as Treasurer, had signed onto a letter to the SEC requesting they require increased private equity fees disclosure.

On a motion by Vaughn Altemus, seconded by Bob Hooper, the Committee unanimously approved a motion to support the efforts of the Treasurer in working with other Treasurers and Comptrollers to increase fee transparency by requesting the SEC require General Partners make better disclosures of private equity expenses to Limited Partners.

- **June Flash Report**

The June Flash report was not available to the Committee members because of production issues caused by the fiscal year end.

- **NEPC Investment Manager Watch List: PIMCO, Schroder**

Mr. Moseley indicated that both the PIMCO Unconstrained Bond Fund and Schrodgers remain on the NEPC Watch List. Mr. Moseley mentioned that NEPC continues to recommend that VPIC begin the process on searching for a new commodity manager to replace Schroder.

Due to the public interest in the fossil fuel divestment discussion the Board discussed the rules governing public comment. Mr. Rauh noted VPIC's standard practice of public comment and recommended that if public comment were to be changed, it occur during the upcoming governance discussion that will take place later this year. The Committee discussed a number of alternatives for the current meeting and compromised on having public comment follow the Divestment discussion prior to a vote on fossil-fuel divestment by the Committee. In addition, the Board came to a consensus to move the Investment Management Fee Review up in the agenda.

ITEM 6: Investment Management Fee Review (Moved to ITEM 6 from ITEM 7 on the agenda)

Mr. Moseley and Mr. Levell reviewed with the Committee NEPC's "Investment Management Fee Review" document. NEPC responded to questions posed by the Committee members. Mr.

Golonka requested that NEPC provide the Committee with an all-in fee that reflects the amount that VPIC is paying on the entire portfolio. He also requested that this all-in fee be presented over time, with the idea that the Committee can compare it to other pension funds and continue to monitor it going forward.

On a motion by Beth Pearce, seconded by Linda Deliduka, the Committee unanimously approved a motion to direct NEPC, in conjunction with Staff, to begin the search for a new commodity manager.

ITEM 8: Fossil Fuel Divestment Discussion/Action

- **ESG Policy Framework**
- **NEPC and Staff Recommendations**
 - **VPIC Current Coal/Coal Related Holding**

Mr. Moseley reviewed with the Committee NEPC's "Fossil Fuel Divestment Discussion" document and responded to questions posed by the Committee members. The document concluded that "NEPC recommends that VPIC not adopt any energy divestment initiative."

Mr. Considine reviewed with the Committee Investment Staff's "Fossil-fuel Divestment Analysis" memo and responded to questions posed by the Committee members. The memo states that "Staff recommends that proposals for fossil-fuel/energy divestment be rejected. Staff believes that analysis demonstrates that such divestment fails to satisfy the criteria set forth in the VPIC ESG policy, presents significant governance challenges, and is not in the best interests of the pension beneficiaries." Ms. Green reviewed with the Committee the market dashboard. She reviewed the oil & gas market reserves and ownership structure, as well as greenhouse gas emissions in various indices per the GICS sub-sectors. In addition, she briefly discussed the coal market's geographic consumption and production flows.

The Treasurer, Ms. Pearce, reviewed with the Committee the "Position of State Treasurer on Fossil Fuel Divestment" memo and responded to questions posed by the Committee members. The memo concludes, "divestment from fossil fuels is not a strategy appropriate to the Vermont Pension plans."

Ms. Pearce and Ms. Deliduka stated that the Vermont Retired Teachers Association Board, at their July meeting, approved a motion to support the VPIC in upholding their fiduciary responsibilities with regard to fossil-fuel divestment.

Ms. Paul mentioned that at the May meeting she had asked for the direct impact of divestment in coal on the VPIC portfolio rather than fossil-fuel divestment as a whole. Ms. Paul also mentioned that she felt the ESG policy could be crafted in a way to make it more flexible and believes that sub-committees could be useful in this endeavor. Ms. Paul expressed her apologies for having to leave the meeting after her comments due to a commitment she had in Burlington of which she had advised the Chair in advance of the meeting. Ms. Pearce noted that the June minutes that were approved at the beginning of the meeting reflect that "the format of July's discussion on fossil-fuel divestment was discussed with a decision reached that fossil fuel divestment as a whole, rather than a particular focus on coal, would be reviewed."

Mr. Briggs mentioned that he would like to see VPIC discuss a plan to reduce its exposure to carbon over time.

Mr. Golonka noted that due to divestment not meeting the VPIC ESG criteria, as well as the unanimous resolution by the VMERS Board not to divest, he sees no reason to proceed with a vote.

Mr. Altemus mentioned that as a fiduciary he cannot support divestment and is concerned with the increased fees from customization and the loss of access to proprietary investment products that would result from having to divest.

Mr. Hooper noted that he does not support divestment, because he feels there would be a tangible opportunity cost lost. He believes that until the public as a whole stops purchasing fossil fuels the action of divestment would not be impactful.

Mr. Starr stated that he could not support divestment for a number of reasons already mentioned, but in large part because he does not believe it to be an effective way of addressing the issue of climate change.

(A recess was taken from 12:30 – 1:00)

ITEM 9: Public comment
(Moved to ITEM 9 from ITEM 10 on the agenda)

Eric Becker from Clean Yield Asset Management gave public comment.

Yolanda Stinson from Connecticut Coalition for Environmental Justice gave public comment.

David Ellenbogen, Representative of the Sierra Club gave public comment.

Maeve McBride gave public comment on behalf of Stephanie Leighton, Trillium Asset Management.

Joan Maclay gave public comment.

Bernie Peters gave public comment.

Mike O'Neal, President of the Vermont Troopers Association gave public comment.

Thomas Hango, Vice-President of the Vermont State Employees' Retirement Board gave public comment.

Robert Stone gave public comment.

Karen Stack gave public comment on behalf of Duane Peterson of SunCommon.

Ed Stanak gave public comment.

Catherine Lowther of Goddard College gave public comment.

On a motion by Beth Pearce, seconded by Linda Deliduka, the Committee unanimously approved a motion to reject fossil-fuel divestment, in whole or in-part, because it is inconsistent with VPIC's Environmental, Social, & Governance (ESG) policy.

ITEM 10: Future Agenda Topics/New or Other Business

Mr. Rauh indicated a number of upcoming agenda topics and asked the Board if they had any topics they would like added to future agendas. Mr. Rauh indicated there was no new or other business to come before the Board.

The Chair, Mr. Rauh, indicated that the Board has now unanimously rejected fossil fuel divestment three times, and because of the substantial amount of time it has consumed for both Investments Staff and NEPC, he recommended, and the Committee agreed, that fossil fuel divestment not be added onto a future agenda without a majority vote of the VPIC. The Committee also agreed that divestment related studies or data requests directed to Staff or NEPC would also require a majority vote of the Committee.

ITEM 10: Adjournment

Mr. Rauh adjourned the meeting at 2:10.

Respectfully submitted,

Nick Foss
Investments Analyst